

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Township of Crystal Falls</b>	County <b>Iron</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>6/14/05</b>	Date Accountant Report Submitted to State: <b>8/10/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

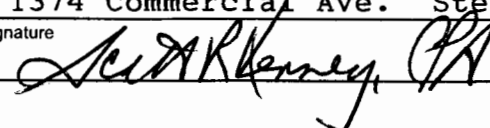
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>x</b>		
Reports on individual federal financial assistance programs (program audits).			<b>x</b>
Single Audit Reports (ASLGU).			<b>x</b>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Ave. Ste. 1</b>		City <b>Crystal Falls</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49920</b>	Date <b>8/10/05</b>

**TOWNSHIP OF CRYSTAL FALLS**  
**IRON COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**

**Fiscal Year Ended March 31, 2005**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Supervisor and Township Board  
Township of Crystal Falls  
P.O. Box 329  
Crystal Falls, Michigan 49920

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of March 31, 2005.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Crystal Falls, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

June 14, 2005

TOWNSHIP OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 7.6% from a year ago - increasing from \$2.110 million to \$2.271 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$165 thousand during the year (14.95% increase). This is attributed to the sale of township property, the curtailment of capital spending and increased scrutiny of budgeted amounts. The business-type activities experienced a \$4,000 decrease in net assets, primarily as a result of the recognition of deferred revenue which decreases earned revenues. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 869	\$ 688	\$ 414	\$ 402	\$ 1,283	\$ 1,090
Noncurrent Assets	<u>413</u>	<u>430</u>	<u>766</u>	<u>776</u>	<u>1,179</u>	<u>1,206</u>
Total Assets	\$ 1,282	\$ 1,118	\$ 1,180	\$ 1,178	\$ 2,462	\$ 2,296
Long-Term Debt Outstanding	\$ 1	\$ 0	\$ 146	\$ 155	\$ 147	\$ 155
Other Liabilities	<u>12</u>	<u>14</u>	<u>32</u>	<u>17</u>	<u>44</u>	<u>31</u>
Total Liabilities	\$ 13	\$ 14	\$ 178	\$ 172	\$ 191	\$ 186
Net Assets						
Invested in Capital Assets-Net of Debt	\$ 414	\$ 395	\$ 592	\$ 584	\$ 1,006	\$ 979
Restricted	171	125	9	27	180	152
Unrestricted	<u>684</u>	<u>584</u>	<u>401</u>	<u>395</u>	<u>1,085</u>	<u>979</u>
Total Net Assets	\$ 1,269	\$ 1,104	\$ 1,002	\$ 1,006	\$ 2,271	\$ 2,110

TOWNSHIP OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2005

Unrestricted net asset—the part of net assets that can be used to finance day to day operations, increased by \$100,000 for the governmental activities. This increase can be attributed primarily to the aforementioned property sales. The current level of unrestricted net assets for our governmental activities stands at \$684,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 32		\$ 214		\$ 246	
Operating Grants and Contributions	11		0		0	
Capital Grants and Contributions	0		0		0	
General Revenues						
Property Taxes	\$ 513		\$ 0		\$ 513	
State-Shared Revenues	133	N	0	N	133	N
Licenses and permits	2	O	0	O	2	O
Unrestricted Investment Earnings	7	T	0	T	7	T
Refunds and reimbursements	2		0		13	
Sale of land	83		0		83	
Other	0		0		0	
Transfers	<u>(8)</u>		<u>8</u>		<u>0</u>	
Total Revenues	\$ 775		\$ 222		\$ 997	
Program Expenses		A		A		A
Legislative	\$ 12	V	\$ 0	V	\$ 12	V
General Government	198	A	0	A	198	A
Public Safety	124	I	0	I	124	I
Public Works	197	L	226	L	423	L
Recreation & Culture	3	A	0	A	3	A
Employee benefits	45	B	0	B	45	B
Insurance	<u>31</u>	L	<u>0</u>	L	<u>31</u>	L
		E		E		E
Total Expenses	\$ <u>610</u>		\$ <u>226</u>		\$ <u>836</u>	
Change in Net Assets	\$ 165		\$ (4)		\$ 161	

The Township's net assets remain at a comfortable level. This can be attributed to conservative yet necessary planning and spending on past capital equipment and projects and implementation of cost savings measures. An expansion at the Medical Care Facility will enhance future utility revenues.

TOWNSHIP OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2005

Governmental Activities

The Township's total governmental revenues increased by approximately \$106,000 due to the sale of Township property and an increase in property tax revenues.

Cash expenditures decreased by slightly more than \$299,000 during the year. This was due to decreased capital spending and lesser amounts being spent to procure land and complete road projects.

Business-Type Activities

The Township's business-type activities consist of the Water and Sewer Funds. The Township provides water and sewer services to its residents. Sewer services are purchased from the City of Crystal Falls and the Township provides water from its own system. The Water Fund revenues decreased due to the recognition of deferred revenues. Water expenses increased due to planning costs incurred in anticipation of a forthcoming water project. The Sewer Fund revenues remained level with the prior year with expenses decreasing slightly. This decrease is attributable to smaller expenditures on contractual services.

The Township's Funds

Analysis of the Township's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The Township's major funds for 2004-2005 include the General Fund, Fire Protection Fund, Township Improvement Fund and each of the business type funds.

The General Fund pays for most of the Township's governmental services. The most significant are general maintenance of Township property and buildings, maintaining the Township's equipment, and general administration. These services are primarily funded from property taxes assessed to the residents of the Township and revenues shared with the State of Michigan.

The Township's Water and Sewer Funds are funded primarily through charges to customers for the services received.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. Various accounts are amended as necessary, unanticipated expenditures are incurred by the Township in the course of its operations.



TOWNSHIP OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2005

Capital Asset and Debt Administration

At the end of the 2004-2005 fiscal year, the Township had slightly more than \$1,500,000 invested in a broad range of capital assets, including land and buildings, office equipment and a water systems. In addition, the Township has invested significantly in roads within the Township which are not included in the total as the roads are owned by the Iron County Road Commission. These roads are maintained by the Road Commission with the costs recorded on their financial records.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2005-2006 calls for a small increase in property tax rates. This minimal increase can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A and decreasing State Shared Revenues, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the Township will grow at a rate less than inflation, before considering new property additions.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses. As an updated Water Bond Ordinance is adopted, it is anticipated that a rate increase will have to be implemented.

Contacting the Township's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Supervisor's office.

**TOWNSHIP OF CRYSTAL FALLS**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
**March 31, 2005**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 647,531	\$ 397,960	\$ 1,045,491
Investments	135,126	0	135,126
Receivables - net	65,250	13,601	78,851
Inventory	381	2,772	3,153
Prepaid expenses	<u>20,462</u>	<u>0</u>	<u>20,462</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 868,750</b>	<b>\$ 414,333</b>	<b>\$ 1,283,083</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 0</b>	<b>\$ 9,221</b>	<b>\$ 9,221</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ 413,772	\$ 747,430	\$ 1,161,202
Other	<u>0</u>	<u>8,926</u>	<u>8,926</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 413,772</b>	<b>\$ 756,356</b>	<b>\$ 1,170,128</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,282,522</b>	<b>\$ 1,179,910</b>	<b>\$ 2,462,432</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 5,047	\$ 1,927	\$ 6,974
Accrued and other liabilities	6,505	5,167	11,672
Deferred revenue	0	15,397	15,397
Current part of non-current liabilities	<u>0</u>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 11,552</b>	<b>\$ 27,491</b>	<b>\$ 39,043</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 0</b>	<b>\$ 4,221</b>	<b>\$ 4,221</b>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences	\$ 1,528	\$ 0	\$ 1,528
Revenue bonds payable	<u>0</u>	<u>145,779</u>	<u>145,779</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 1,528</b>	<b>\$ 145,779</b>	<b>\$ 147,307</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 13,080</b>	<b>\$ 177,491</b>	<b>\$ 190,571</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 413,772	\$ 592,430	\$ 1,006,202
Restricted for			
Prepaid expenses	20,462	0	20,462
Bond discount	0	8,926	8,926
Unrestricted	<u>835,208</u>	<u>401,063</u>	<u>1,236,271</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 1,269,442</b>	<b>\$ 1,002,419</b>	<b>\$ 2,271,861</b>

Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF CRYSTAL FALLS**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
Year ended March 31, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Governmental Activities				
Legislative	\$ 12,439	\$ 0	\$ 0	\$ 0
General government	197,607	0	0	0
Public safety	124,136	0	0	0
Public works	197,206	31,594	10,754	0
Parks and recreation	2,520	0	0	0
Employee benefits	45,441	0	0	0
Insurance	30,861	0	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 610,210</b>	<b>\$ 31,594</b>	<b>\$ 10,754</b>	<b>\$ 0</b>

Business-Type Activities				
Sewer	\$ 94,946	\$ 87,811	\$ 0	\$ 0
Water	130,577	126,005	0	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 225,523</b>	<b>\$ 213,816</b>	<b>\$ 0</b>	<b>\$ 0</b>

<b>GENERAL REVENUES</b>	
Property taxes	
State shared revenues and grants	
Licenses and permits	
Unrestricted investments earnings	
Refunds and reimbursements	
Other	
SPECIAL ITEM-Gain (loss) on sale of land	
<b>TRANSFERS</b>	

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities	\$ (12,439)	\$	\$ (12,439)
General government	(197,607)		(197,607)
Public safety	(124,136)		(124,136)
Public works	(154,858)		(154,858)
Parks and recreation	(2,520)		(2,520)
Employee benefits	(45,441)		(45,441)
Insurance	(30,861)		(30,861)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ (567,862)</b>	<b>\$</b>	<b>\$ (567,862)</b>
Business-Type Activities			
Sewer	\$ (7,135)	\$	\$ (7,135)
Water	(4,572)		(4,572)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ (11,707)</b>	<b>\$</b>	<b>\$ (11,707)</b>
<b>GENERAL REVENUES</b>			
Property taxes	\$ 513,492	\$ 0	\$ 513,492
State shared revenues and grants	133,025	0	133,025
Licenses and permits	1,950	0	1,950
Unrestricted investments earnings	7,299	149	7,448
Refunds and reimbursements	2,400	0	2,400
Other	0	0	0
SPECIAL ITEM-Gain (loss) on sale of land	83,031	0	83,031
<b>TRANSFERS</b>	<b>(8,000)</b>	<b>8,000</b>	<b>0</b>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>	<b>\$ 733,197</b>	<b>\$ 8,149</b>	<b>\$ 741,346</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 165,335</b>	<b>\$ (3,558)</b>	<b>\$ 161,777</b>
<b>Net assets - beginning</b>	<b>1,104,107</b>	<b>1,005,977</b>	<b>2,110,084</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 1,269,442</b>	<b>\$ 1,002,419</b>	<b>\$ 2,271,861</b>

The Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF CRYSTAL FALLS**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**COMBINED BALANCE SHEET**  
**March 31, 2005**

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 398,787	\$ 98,940	\$ 149,804	\$ 647,531
Investments	135,126	0	0	135,126
Taxes receivable	19,048	8,483	0	27,531
Accounts receivable	0	0	0	0
Due from other funds	0	8,748	0	8,748
Due from other governmental units	28,971	0	0	28,971
Inventory	381	0	0	381
Prepaid expense	<u>0</u>	<u>20,462</u>	<u>0</u>	<u>20,462</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>582,313</u></b>	<b>\$ <u>136,633</u></b>	<b>\$ <u>149,804</u></b>	<b>\$ <u>868,750</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 5,047	\$ 0	\$ 0	\$ 5,047
Accrued payroll expense	0	0	0	0
Accrued taxes and withholdings	0	0	0	0
Accrued benefits	0	0	0	0
Due to other funds	6,505	0	0	6,505
Accrued interest	0	0	0	0
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 11,552</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 11,552</b>
<b>FUND BALANCES</b>				
Reserved for				
Prepaid expenses	\$ 0	\$ 20,462	\$ 0	\$ 20,462
Unreserved	<u>570,761</u>	<u>116,171</u>	<u>149,804</u>	<u>836,736</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>570,761</u></b>	<b>\$ <u>136,633</u></b>	<b>\$ <u>149,804</u></b>	<b>\$ <u>857,198</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>582,313</u></b>	<b>\$ <u>136,633</u></b>	<b>\$ <u>149,804</u></b>	<b>\$ <u>868,750</u></b>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
March 31, 2005

Total fund balance - total governmental funds	\$ 857,198
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	413,772
Accumulated employee vacation pay not used in current period	<u>(1,528)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>1,269,442</u></u>

**TOWNSHIP OF CRYSTAL FALLS**  
**ALL GOVERNMENTAL FUND TYPES**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
Year ended March 31, 2005

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>				
General property taxes	\$ 362,483	\$ 151,009	\$ 0	\$ 513,492
Federal grants	0	0	0	0
State shared revenues and grants	133,025	0	0	133,025
Charges for services	31,594	0	0	31,594
Licenses and permits	1,950	0	0	1,950
Interest and rentals	5,644	723	932	7,299
Sale of property	83,031	0	0	83,031
Refunds and reimbursements	13,154	0	0	13,154
Other	0	0	0	0
<b>TOTAL REVENUES</b>	<b>\$ 630,881</b>	<b>\$ 151,732</b>	<b>\$ 932</b>	<b>\$ 783,545</b>
<b>EXPENDITURES</b>				
Legislative	\$ 12,439	\$ 0	\$ 0	\$ 12,439
General government	170,349	11,523	0	181,872
Public safety	0	124,136	0	124,136
Public works	196,478	0	0	196,478
Parks and recreation	2,520	0	0	2,520
Employee benefits	43,913	0	0	43,913
Insurance	30,861	0	0	30,861
Capital outlay	27,672	0	7,122	34,794
<b>TOTAL EXPENDITURES</b>	<b>\$ 484,232</b>	<b>\$ 135,659</b>	<b>\$ 7,122</b>	<b>\$ 627,013</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 146,649</b>	<b>\$ 16,073</b>	<b>\$ (6,190)</b>	<b>\$ 156,532</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	\$ 0	\$ 0	\$ 50,000	\$ 50,000
Transfer to other funds	(58,000)	0	0	(58,000)
<b>EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES</b>	<b>\$ 88,649</b>	<b>\$ 16,073</b>	<b>\$ 43,810</b>	<b>\$ 148,532</b>
Fund balance - beginning	482,112	120,560	105,994	708,666
<b>FUND BALANCE - ENDING</b>	<b>\$ 570,761</b>	<b>\$ 136,633</b>	<b>\$ 149,804</b>	<b>\$ 857,198</b>

Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF CRYSTAL FALLS**  
**RECONCILIATION OF STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year ended March 31, 2005**

Net change in fund balance - total governmental funds	\$ 148,532
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Amounts reported for governmental activities in the Statement  
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	18,331
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Increases in accumulated employee vacation are recorded when earned in the Statement of Activities	<u>(1,528)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>165,335</u></u>
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**TOWNSHIP OF CRYSTAL FALLS**  
**STATEMENT OF NET ASSETS**  
**BUSINESS TYPE FUNDS**  
**March 31, 2005**

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Current Assets:			
Cash and equivalents	\$ 29,415	\$ 368,545	\$ 397,960
Accounts receivable	4,539	9,062	13,601
Inventory	<u>0</u>	<u>2,772</u>	<u>2,772</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 33,954</b>	<b>\$ 380,379</b>	<b>\$ 414,333</b>
Restricted Assets	\$ 0	\$ 9,221	\$ 9,221
Property, Plant and Equipment:			
Utility plant and equipment	\$ 228,199	\$ 1,321,241	\$ 1,549,440
Less accumulated depreciation	<u>(62,051)</u>	<u>(739,959)</u>	<u>(802,010)</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 166,148</b>	<b>\$ 581,282</b>	<b>\$ 747,430</b>
Other Assets - Deferred bond costs	\$ <u>0</u>	\$ <u>8,926</u>	\$ <u>8,926</u>
<b>TOTAL ASSETS</b>	<b>\$ 200,102</b>	<b>\$ 979,808</b>	<b>\$ 1,179,910</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 195	\$ 1,732	\$ 1,927
Interest payable	0	5,167	5,167
Deferred revenue	0	15,397	15,397
Current portion of long term debt	<u>0</u>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 195</b>	<b>\$ 27,296</b>	<b>\$ 27,491</b>
Long Term Liabilities	\$ <u>0</u>	\$ <u>150,000</u>	\$ <u>150,000</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 195</b>	<b>\$ 177,296</b>	<b>\$ 177,491</b>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 166,148	\$ 426,282	\$ 592,430
Restricted for debt service	0	9,221	9,221
Restricted for future construction and improvements	0	0	0
Unrestricted	<u>33,759</u>	<u>367,009</u>	<u>400,768</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>199,907</u></b>	<b>\$ <u>802,512</u></b>	<b>\$ <u>1,002,419</u></b>

Notes to Financial Statements are an integral part of this statement.



**TOWNSHIP OF CRYSTAL FALLS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**BUSINESS TYPE FUNDS**  
**Year ended March 31, 2005**

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>			
User charges	\$ 87,319	\$ 125,725	\$ 213,044
Other	<u>492</u>	<u>280</u>	<u>772</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 87,811</b>	<b>\$ 126,005</b>	<b>\$ 213,816</b>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 13,398	\$ 30,301	\$ 43,699
Payroll taxes	990	2,278	3,268
Employee benefits	5,578	14,055	19,633
Supplies	905	12,463	13,368
Repairs and maintenance	0	0	0
Contracted services	64,996	9,491	74,487
Utilities	3,509	21,284	24,793
Depreciation	5,570	31,453	37,023
Other	<u>0</u>	<u>268</u>	<u>268</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>94,946</u></b>	<b>\$ <u>121,593</u></b>	<b>\$ <u>216,539</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (7,135)</b>	<b>\$ 4,412</b>	<b>\$ (2,723)</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>			
Interest	\$ 0	\$ 149	\$ 149
Interest	0	(8,984)	(8,984)
<b>NON-OPERATING TRANSFERS</b>			
To other funds	<u>\$ 0</u>	<u>\$ 8,000</u>	<u>\$ 8,000</u>
<b>NET INCOME (LOSS)</b>	<b>\$ (7,135)</b>	<b>\$ 3,577</b>	<b>\$ (3,558)</b>
Net assets - beginning	<u>207,042</u>	<u>798,935</u>	<u>1,005,977</u>
<b>NET ASSETS - ENDING</b>	<b>\$ <u><u>199,907</u></u></b>	<b>\$ <u><u>802,512</u></u></b>	<b>\$ <u><u>1,002,419</u></u></b>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
BUSINESS TYPE FUNDS  
Year ended March 31, 2005

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 90,893	\$ 139,472	\$ 230,365
Payments to suppliers	(74,729)	(42,585)	(117,314)
Payments to or on behalf of employees	<u>(19,966)</u>	<u>(46,634)</u>	<u>(66,600)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (3,802)	\$ 50,253	\$ 46,451
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer from (to) other funds	0	8,000	8,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	\$ 0	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	0	(8,850)	(8,850)
Purchases of capital assets	0	(40,475)	(40,475)
Funding of restricted accounts	<u>0</u>	<u>13,702</u>	<u>13,702</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 0	\$ (40,623)	\$ (40,623)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>0</u>	\$ <u>149</u>	\$ <u>149</u>
NET INCREASE (DECREASE) IN CASH	\$ (3,802)	\$ 17,779	\$ 13,977
Cash and equivalents - beginning	<u>33,217</u>	<u>350,766</u>	<u>383,983</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>29,415</u></u>	\$ <u><u>368,545</u></u>	\$ <u><u>397,960</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (7,135)	\$ 4,412	\$ (2,723)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	5,570	31,453	37,023
Change in Assets and Liabilities			
Receivables - net	2,864	(1,930)	934
Due from other funds	218	0	
Inventory	0	991	
Accounts payable	(5,319)	(70)	(5,389)
Deferred revenue	<u>0</u>	<u>15,397</u>	<u>15,397</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>(3,802)</u></u>	\$ <u><u>50,253</u></u>	\$ <u><u>45,242</u></u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
 March 31, 2005

	AGENCY FUNDS		
	TRUST AND AGENCY	TAX COLLECTIONS	TOTAL
ASSETS			
Cash and equivalents	\$ 0	\$ 2,243	\$ 2,243
Due from other funds	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>0</u>	\$ <u>2,243</u>	\$ <u>2,243</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Due to other funds	\$ 0	\$ 2,243	\$ 2,243
Due to other governmental units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>0</u>	\$ <u>2,243</u>	\$ <u>2,243</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS  
FIDUCIARY FUNDS - AGENCY  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year ended March 31, 2005

	BALANCE 31-Mar-04	ADDITIONS	DEDUCTIONS	BALANCE 31-Mar-05
<b>ASSETS</b>				
Cash and equivalents	\$ <u>76,741</u>	\$ <u>1,560,754</u>	\$ <u>1,635,252</u>	\$ <u>2,243</u>
 <b>LIABILITIES</b>				
Due to other funds	\$ 9,821	\$ 483,661	\$ 491,239	\$ 2,243
Due to other governmental units	66,920	1,075,344	1,142,264	0
Due to taxpayers	<u>0</u>	<u>1,749</u>	<u>1,749</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	\$ <u>76,741</u>	\$ <u>1,560,754</u>	\$ <u>1,635,252</u>	\$ <u>2,243</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Crystal Falls (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

**Reporting Entity**

The Township is governed by an elected five member board of trustees (Board). The accompanying financial statements present the government, as the Township does not have any component units that are required to be presented, either discretely or blended.

**JOINTLY GOVERNED ORGANIZATIONS**

Crystal Falls Fire Authority

The Township of Crystal Falls and City of Crystal Falls participate jointly in the operation of the Crystal Falls Fire Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Fire Department Offices located in the Crystal Falls City Hall.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The Township's contribution to the Fire Authority for the audit period was \$124,136.

**Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Government-Wide and Fund Financial Statements (Continued)**

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the 15th day of February of the ensuing year without penalty. The Township bills and collects its own property taxes and also taxes for Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. Township real property taxes are recognized when levied and personal property taxes are recognized when received.

The Township actually assessed 4.4 mills for operations and 1.9914 mills for fire protection. The millage generated net tax collections of \$324,705 that is recorded in the General Fund and \$146,690 in the Fire Protection Fund.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The Fire Protection Fund accounts for the tax collections restricted for fire protection and pays the quarterly commitments to the Crystal Falls Fire Authority.

The Township Improvement Fund accounts for transfers primarily from the General Fund and expends funds for designated non-utility capital projects.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Township's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 16<sup>th</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets— Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the Township is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.



TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Compensatory and Sick Leave)– It is the Township’s policy to permit employees to accumulate earned but unused compensatory benefits. The Township does not have a determinable liability for unpaid accumulated sick leave since the Township has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All compensatory leave pay is accrued when incurred proprietary fund financial statements. A liability for this amount is reported in governmental funds only for employee terminations as of year-end as the use of current financial resources to satisfy the debt has not been determined.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE B - CASH AND INVESTMENTS

CASH DEPOSITS:

Cash includes amounts in demand, savings and certificates of deposits with a maturity date within three months of the financial statement date. State statutes authorize the government to invest in bank time accounts, obligations of the U.S. Treasury, commercial paper, corporate bonds, certain mutual funds and repurchase agreements.

The carrying amount of the Township's deposits with financial institutions including certificates of deposit maturing in less than 90 days is \$ 1,045,491. The bank balance is comprised as follows:

Amount insured by the Federal Deposit Insurance Corporation Insurance Corporation	\$ 249,804
Uninsured, uncollateralized	<u>795,687</u>
TOTAL BANK BALANCE	<u><u>\$1,045,491</u></u>

INVESTMENTS:

The Township had no investments at March 31, 2005 other than the certificates of deposit which are considered investments because they have maturities longer than ninety days:

Certificates of deposit	<u><u>\$ 135,126</u></u>
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NOTE C - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amounts appropriated in any of its budgetary funds.

During the year ended March 31, 2005, the Township incurred expenditures materially in excess of appropriated amounts as follows:

<u>Fund/Activity</u>	<u>Expended</u>	<u>Budgeted</u>	<u>Over Expenditure</u>	
			<u>Amount</u>	<u>%</u>
General Fund - Building and Property	\$ 36,343	\$ 35,800	\$ 543	1.52
General Fund - Sanitation	46,586	42,000	4,586	10.92
Fire Protection Fund - Administration	11,523	0	11,523	~

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE D - ACCUMULATED DEFICITS

The Township does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

NOTE E - INTERFUND TRANSFERS

The following interfund transfers were recorded during the year and are reflected in the financial statements.

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Water	\$ 8,000

NOTE F - INTERFUND RECEIVABLES AND PAYABLE

The March 31, 2005, balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Fire Protection	\$ 6,505
Tax Collection	Fire Protection	2,243

NOTE G - TOWNSHIP REVOLVING FUND

Pursuant to a resolution of the Township Board, this fund was established to accumulate financial resources to be used for Township capital improvement and capital outlay type expenses.

The fund was initiated with a transfer from the General Fund. As mandated by law, such transfers are limited to two mills per year/five mills in total of the state equalized valuation of the real and personal property in the Township . Further, all interest earned on investments of the fund becomes part of the fund.

If deemed necessary for the operations of the Township, the Board at its discretion may transfer monies back to the General Fund.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE H - CHANGES IN LONG TERM DEBT - WATER SUPPLY SYSTEM REVENUE AND REVENUE REFUNDING BONDS - SERIES 1987

Long term debt of the Water Fund at March 31, 2005 is comprised of the following amount:

\$ 220,000 - Water Supply System Revenue and Revenue Refunding Bonds - Series 1987 due in annual installments as set forth in the Schedule of Bonded Debt and Interest on each May and November 1, through 2017.

In July of 1993, the Township refinanced its then outstanding Water Supply System Revenue Bonds - Series 1987 by entering into a "Savings Agreement" with the Michigan Municipal Bond Authority pursuant to the Authorities Local Government Refunding Revenue Bond Program. Through a reduction in the coupon interest rates, the refinancing effectively saved the Township \$49,925 in bond interest. Refinancing charges totaling \$ 15,318 were deferred and are being amortized on a straight line basis over the remaining life of the bonds.

Below is an amortization schedule for the Revenue Bond:

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
May 1, 2005	\$ 6,200	\$ 0	6,200
November 1, 2005	7,396	5,000	2,396
May 1, 2006	6,000	0	6,000
November 1, 2006	7,336	5,000	2,336
May 1, 2007	5,800	0	5,800
November 1, 2007	12,138	10,000	2,138
May 1, 2008	5,400	0	5,400
November 1, 2008	11,988	10,000	1,988
May 1, 2009	5,000	0	5,000
November 1, 2009	11,823	10,000	1,823
2010 - 2017	<u>145,045</u>	<u>115,000</u>	<u>30,045</u>
	<u>\$ 224,125</u>	<u>\$ 155,000</u>	<u>\$ 69,125</u>

NOTE I - PENSION PLAN

The Township maintains a fully funded pension plan for its full time employees and trustees. The Township's contribution was \$ 3,175 during the year.

TOWNSHIP OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2005

NOTE J - RISK MANAGEMENT

The Township of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

**TOWNSHIP OF CRYSTAL FALLS**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
Year ended March 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 482,112	\$ 482,112	\$ 482,112	\$ 0
Resources (Inflows)				
Property taxes	316,439	316,439	362,483	46,044
State shared revenues and grants	133,364	133,364	133,025	(339)
Licenses and permits	2,500	2,500	1,950	(550)
Charges for services	34,000	34,000	31,594	(2,406)
Interest and rentals	8,100	8,100	5,644	(2,456)
Sale of property	60,000	60,000	83,031	23,031
Refunds and reimbursements	0	0	13,154	13,154
Other	2,000	2,000	0	(2,000)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 1,038,515	\$ 1,038,515	\$ 1,112,993	\$ 74,478
Charges to Appropriations (Outflows)				
Legislative				
Trustees	\$ 16,000	\$ 16,000	\$ 12,439	\$ 3,561
General Government				
Supervisor	13,500	13,500	12,150	1,350
Elections	4,000	2,000	1,642	358
Clerk	25,000	36,000	34,892	1,108
Assessor	23,000	23,000	22,843	157
Audit/attorney	13,000	19,100	11,284	7,816
Board of review	800	600	540	60
Treasurer	18,500	18,000	15,890	2,110
Buildings and property	33,800	35,800	36,343	(543)
Cemetery	14,000	14,000	13,308	692
Zoning	20,000	22,000	21,457	543
Public Works				
Maintenance	200,000	182,846	139,138	43,708
Internet	0	10,754	10,754	0
Sanitation	42,000	42,000	46,586	(4,586)
Parks and Recreation				
Ski hill	2,500	2,500	2,520	(20)
Employee benefits	100,000	69,000	43,913	25,087
Insurance	0	31,000	30,861	139
Capital outlay	58,000	46,000	27,672	18,328
Transfers to other funds	73,000	73,000	58,000	15,000
TOTAL CHARGES TO APPROPRIATIONS	\$ 657,100	\$ 657,100	\$ 542,232	\$ 114,868
BUDGETARY FUND BALANCE--ENDING	\$ 381,415	\$ 381,415	\$ 570,761	\$ 189,346

TOWNSHIP OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
FIRE PROTECTION FUND  
Year ended March 31, 2005

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 120,560	\$ 120,560	\$ 120,560	\$ 0
Resources (Inflows)				
Property taxes	141,971	141,971	151,009	9,038
Interest earned	500	500	723	223
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 263,031	\$ 263,031	\$ 272,292	\$ 9,261
Charges to Appropriations (Outflows)				
Public safety - fire	\$ 128,560	\$ 128,560	\$ 124,136	\$ 4,424
Administration	0	0	11,523	(11,523)
Capital outlay	<u>68,000</u>	<u>68,000</u>	<u>0</u>	<u>68,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>196,560</u>	\$ <u>196,560</u>	\$ <u>135,659</u>	\$ <u>60,901</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>66,471</u></u>	\$ <u><u>66,471</u></u>	\$ <u><u>136,633</u></u>	\$ <u><u>70,162</u></u>



**TOWNSHIP OF CRYSTAL FALLS**  
**BUDGETARY COMPARISON SCHEDULE**  
**TOWNSHIP IMPROVEMENT FUND**  
Year ended March 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 105,994	\$ 105,994	\$ 105,994	\$ 0
Resources (Inflows)				
Interest	2,000	2,000	932	(1,068)
Transfer from other funds	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 157,994	\$ 157,994	\$ 156,926	\$ (1,068)
Charges to Appropriations (Outflows)				
Capital outlay	\$ 20,000	\$ 20,000	\$ 7,122	\$ 12,878
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>20,000</u>	\$ <u>20,000</u>	\$ <u>7,122</u>	\$ <u>12,878</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>137,994</u>	\$ <u>137,994</u>	\$ <u>149,804</u>	\$ <u>11,810</u>

ADDITIONAL  
INFORMATION

TOWNSHIP OF CRYSTAL FALLS  
BALANCE SHEET  
WATER SUPPLY SYSTEM FUND  
March 31, 2005 and 2004

ASSETS	2005	2004
Current Assets:		
Cash	\$ 368,545	\$ 350,766
Accounts receivable	9,062	7,132
Inventory	<u>2,772</u>	<u>3,763</u>
TOTAL CURRENT ASSETS	\$ 380,379	\$ 361,661
Restricted Assets - bond and interest redemption	\$ 9,221	\$ 22,923
Property and Equipment:		
Property and equipment	\$ 1,321,241	\$ 1,280,766
Less accumulated depreciation	<u>(739,959)</u>	<u>(708,506)</u>
NET PROPERTY AND EQUIPMENT	\$ 581,282	\$ 572,260
Other Assets - Deferred bond costs - net	\$ <u>8,926</u>	\$ <u>9,226</u>
TOTAL ASSETS	<u>\$ 979,808</u>	<u>\$ 966,070</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 1,732	\$ 1,802
Accrued interest	5,167	5,333
Deferred revenue	15,397	0
Current portion of long-term debt	<u>5,000</u>	<u>5,000</u>
TOTAL CURRENT LIABILITIES	\$ 27,296	\$ 12,135
Long-Term Debt:		
Revenue bonds	\$ 155,000	\$ 160,000
Less current portion included above	<u>(5,000)</u>	<u>(5,000)</u>
TOTAL LONG-TERM DEBT	\$ <u>150,000</u>	\$ <u>155,000</u>
TOTAL LIABILITIES	\$ 177,296	\$ 167,135
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 39,407	\$ 45,501
Township	<u>593,843</u>	<u>593,843</u>
TOTAL CONTRIBUTED CAPITAL	\$ 633,250	\$ 639,344
Retained earnings:		
Reserved	\$ 11,993	\$ 22,923
Unreserved - undesignated	<u>157,269</u>	<u>136,668</u>
TOTAL RETAINED EARNINGS	\$ <u>169,262</u>	\$ <u>159,591</u>
TOTAL FUND EQUITY	\$ <u>802,512</u>	\$ <u>798,935</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 979,808</u>	<u>\$ 966,070</u>

**TOWNSHIP OF CRYSTAL FALLS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**WATER SUPPLY SYSTEM FUND - ACTUAL AND BUDGET**  
**Years ended March 31, 2005 and 2004**

	2005		2004	Variance
	Actual		Actual	Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Charges for services:				
Customer sales	\$ 125,725	\$	138,876	\$ (13,151)
Water taps and other services	<u>280</u>		<u>4,991</u>	<u>(4,711)</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 126,005</b>	<b>\$</b>	<b>143,867</b>	<b>\$ (17,862)</b>
<b>OPERATING EXPENSES</b>				
Wages	\$ 30,301	\$	26,905	\$ (3,396)
Payroll taxes	2,278		2,058	(220)
Employee benefits	14,055		0	(14,055)
Supplies	12,463		15,206	2,743
Purchased services	9,491		3,792	(5,699)
Dues and subscriptions	62		327	265
Travel	206		433	227
Utilities	21,284		19,910	(1,374)
Depreciation	<u>31,453</u>		<u>28,087</u>	<u>(3,366)</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 121,593</b>	<b>\$</b>	<b>96,718</b>	<b>\$ (24,875)</b>
<b>OPERATING INCOME</b>	<b>\$ 4,412</b>	<b>\$</b>	<b>47,149</b>	<b>\$ (42,737)</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Interest income	\$ 149	\$	737	\$ (588)
Transfer from general fund	8,000		8,000	0
Interest expense	<u>(8,984)</u>		<u>(11,284)</u>	<u>2,300</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b>\$ (835)</b>	<b>\$</b>	<b>(2,547)</b>	<b>\$ 1,712</b>
<b>NET INCOME</b>	<b>\$ 3,577</b>	<b>\$</b>	<b>44,602</b>	<b>\$ <u>(41,025)</u></b>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	6,094		6,094	
Retained Earnings - April 1	<u>159,591</u>		<u>108,895</u>	
<b>RETAINED EARNINGS - MARCH 31</b>	<b>\$ <u>169,262</u></b>	<b>\$</b>	<b><u>159,591</u></b>	

**TOWNSHIP OF CRYSTAL FALLS**  
**STATEMENT OF CASH FLOWS**  
**WATER SUPPLY SYSTEM FUND**  
Year ended March 31, 2005

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 139,472	\$ 148,988
Payments to suppliers	(42,585)	(39,399)
Payments to or on behalf of employees	<u>(46,634)</u>	<u>(28,963)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 50,253</b>	<b>\$ 80,626</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES - Transfer from other funds</b>	<b>8,000</b>	<b>8,000</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	(8,850)	(11,152)
Purchases of capital assets	(40,475)	(1,856)
Funding of restricted accounts	<u>13,702</u>	<u>15,740</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (40,623)</b>	<b>\$ (2,268)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES - Interest</b>	<b>\$ 149</b>	<b>\$ 737</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 17,779</b>	<b>\$ 87,095</b>
Cash and equivalents - beginning	<u>350,766</u>	<u>263,671</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>368,545</u></b>	<b>\$ <u>350,766</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 4,412	\$ 47,149
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	31,453	28,087
Change in Assets and Liabilities		
Receivables - net	(1,930)	5,121
Inventory	991	0
Accounts payable	(70)	269
Deferred revenue	<u>15,397</u>	<u>0</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>50,253</u></b>	<b>\$ <u>80,626</u></b>

# SCOTT R. KENNEY

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INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Supervisor and Township Board  
Township of Crystal Falls  
P.O. Box 329  
Crystal Falls, MI 49920

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan (Township) as of and for the year ended March 31, 2005, which collectively comprise the Township of Crystal Falls, Michigan's basic financial statements and have issued my report thereon dated June 14, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed that some utility customers were not charged amounts for services as dictated by the ordinance.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the Township's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted some matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. These include too many utility billing tasks being centralized in the deputy clerk (billing, receiving and posting), undercharging certain utility customers, and utility receivables not being reconciled. In addition, I noted other matters involving the internal control over financial reporting that I have reported to the management of the Township in a separate letter dated June 14, 2005.

This report is intended solely for the information and use of the audit committee, management, Township Board and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

June 14, 2005

# SCOTT R. KENNEY

*Certified Public Accountant*

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The Honorable Supervisor and Board of Trustees  
Township of Crystal Falls  
Crystal Falls, MI 49920

In conjunction with the audit of the financial statements of the Township of Crystal Falls, Michigan as of and for the year ended March 31, 2005, I have reviewed the Township's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the Township's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the Township of Crystal Falls Board of Trustees and management and should not be presented or quoted to anyone outside of the Township because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first two items included below are repeats of the prior year comments.

1. **OBSERVATION** - The Township installed an upgraded general accounting and utility billing computer system during the fiscal past year. As was recommended in the past year's letter of comments and recommendations, internal control and accounting procedures needed to be reviewed and updated for use with the new software. The lack of a procedural review as of the Township's fiscal year ended resulted in a material noncompliance with the utility ordinances and three material weaknesses in the design of the internal accounting control.

The noncompliance occurred when one customer was not being charged for water usage and some customers were being inappropriately charged seasonal rates.

The three material weaknesses are: all of the utility billing/receiving/posting functions are centralized with one employee, some customers were being undercharged for services, and detailed utility receivables were not reconciled with the general ledger.

**RECOMMENDATION** - The Township has undertaken steps to correct both the non-compliance and material weaknesses.

Subsequent to the year end, the Township arranged for and completed training for the Treasurer, Clerk and newly hired Deputy Clerk. This will provide for necessary information for the various officers to appropriately perform the duties of their respective offices.

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**RECOMMENDATION (CONTINUED)** - Further, I recommend that the ordinances that are currently in effect be closely reviewed by the staff and that all customer accounts be charged in accordance with those ordinances. Any future amendments to those ordinances should be reviewed and implemented timely.

I, also, recommend that the detailed utility receivables be reconciled with the general ledger balance monthly to assure correct posting of activity and provide oversight of the function.

2. **OBSERVATION** - A physical inventory of the goods owned but not consumed was not taken by the Township at the end of the fiscal year as procedures require.

**RECOMMENDATION** - A physical inventory needs to be taken at least annually at the conclusion of the fiscal year.

3. **OBSERVATION** - The Township's ordinances allow for a service deposit to be collected from utility customers. This is currently being done on a discretionary basis.

**RECOMMENDATION** - I recommend that the Board review the present ordinance and update as necessary. I further recommend that the update include stratifying customers into specific homogenous groups and charging a set amount for each of those groups. Any possible occurrence of a utility bad debt should include a service deposit. In addition, I recommend that a service deposit be collected after service is restored after being discontinued for nonpayment. This fee is in addition to charges for beginning the utility service (turn-on fee).

4. **OBSERVATION** - The Township is not presently tracking accrued time off balances for its full time employees and is relying on the employee records.

**RECOMMENDATION** - I recommend the Township implement a plan for tracking any time off earned and/or taken. This includes but is not limited to vacation and compensatory time. This will allow for a proper determination of balances to be paid and year end liability amounts.

5. **OBSERVATION** - The Township did not prepare Form 1099 for individuals that were required to receive them.

**RECOMMENDATION** - I recommend that the Township receive a Form W-9 from *all* vendors as soon as possible. This will contain the necessary information to determine if the vendor should receive a Form 1099.

Presently, the law states that a Form 1099 shall be sent to any non-corporate vendor receiving payments of \$600 or more. In addition, all attorneys are required to be issued forms.

I would like to thank the Township Board for allowing me to conduct the audit of the records and especially thank Tom, Sherry, and JoAnne for their assistance during the audit.

If the Township would like my assistance in implementing any of the above recommendations, I am willing to assist you in any way that I can.

  
Certified Public Accountant

June 14, 2005